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## The metal fabricators: challenges of growth in a small Ghanaian business

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## 2.5 The metal fabricators: challenges of growth in a small Ghanaian business

*Professor Rob Paton, Dr Richard Blundel and Dr Nceku Nyathi*

### **Teacher's notes**

This case has been written in order to provide a basis for class discussion. It is presented in three parts and could be run over several class meetings. In keeping with the OER approach, it could easily be re-versioned – for example, to provide the basis for an assignment.

**Part 1** is very short and simply sets the scene. Use it to draw out student attitudes to the sort of small, informal sector business which they will often have seen but may not have thought about. These are often looked down on, even though they probably make up 80 per cent of the economic activity in Ghana. Encourage students to share their knowledge of such businesses – some students at least must have family members who work for them. Encourage them to be curious about the business activity that is all around. How are the businesses run? What are they like? If students are dismissive of them – perhaps thinking they should compare them with ‘proper’ (i.e., large, formal business) – then urge them to think again. Big successful businesses usually start as small ones, and are often informal to begin with. Even ones that remain small are often very shrewdly run, overcoming many obstacles.

**Part 2** provides at least some information on all the main business functions – marketing, production, finance and HR. Good students will recognise that the financial information is sketchy and slightly confusing; it is not clear how Labaran calculates profit. Was he just reluctant to reveal too much about the business, or is he himself a bit uncertain about the contribution the different lines make? Nevertheless, it is clear that the business is profitable, and has unexploited business opportunities.

The questions posed to students could be answered in different ways and so you should be able to appreciate a range of reasonable views from them. Clearly, Labaran has done well – and better than others who had the same opportunity. But might he have done even better? Those students who think so need to be able to point to specific changes that might have been made, and not just imply that they would have done better! Unless one thinks that a business based on scrap metal working is going to be squeezed out and has no long-term future, the main challenge is that of *expansion*. The opportunities are in producing additional profitable products, as well as serving a wider area. Good students will realise that the site is now unsuitable for everything except passing sales.

The main challenges that Labaran himself faces are those of many owners of small businesses, especially artisans, but with additional dimensions provided by the fact that it is all an informal arrangement. The transition into the formal economy will require him to learn a great deal and gradually come to lead and manage in somewhat different ways. But there is considerable scope for discussion about how far and how fast all this should happen. Some quite large businesses continue to run successfully on an informal basis – and as long as it works, informality is a very economical way to run a business (accountants and marketers are usually rather expensive!).

**Part 3** provides more information about the realities of surviving as a small business and poses further, more focused, questions. But students can reasonably argue for a range of different answers, and this should be encouraged. The point is for them to think through what is involved in growing a business, and the very different ways this can be done.

If they all assume that a private company is the 'obvious' form, then it may be worth explaining that producer cooperatives have often been very successful in this sort of craft industry. Reasons for this include the fact that the skilled workforce is a key asset – you don't want them walking away and setting up a rival operation. So sharing ownership with this group provides a basis for trust and makes good sense. Also, this form might fit well with the culture of Yoyili. Sceptical students might be encouraged to google the Mondragon Group or visit [www.mondragon-corporation.com/ENG.aspx](http://www.mondragon-corporation.com/ENG.aspx). It is essentially a very large worker's cooperative, even if it now operates across many countries!

## ***Part 1: Origins***



*Sign for the business*

Yoyili Enterprises was named after a chief in the north of Ghana whose family moved south seeking work and opportunities. Some of them started a family-owned forge and scrap metal business, gradually building it up on the basis of skilful metalworking and the shrewd purchasing of scrap. The business was located on a small site by a busy road through Ashiaman, a growing township within the sprawling Accra-Tema metropolitan complex. The business was successful in its own terms but not distinctive; it was one of many such businesses.

In 1998 it was agreed that Labaran – who had successfully completed secondary school and was then in his early twenties – would take over the leadership of the business. At that time it was providing a livelihood for about 12 people. Some forging was still undertaken, but increasingly the business was focusing on using scrap sheet metal to fabricate a range of household, agricultural or light industrial products such as watering cans, buckets and oilcans.



*Various products*

### Discussion questions

- 1 How might this business have been owned and organised?
- 2 What do you think the prospects would have been – and are – for this sort of business? Some people have suggested that Labaran should have tried to get an office job or go to university or a polytechnic (as his older brother did) instead of working with his hands. Do you agree?
- 3 What specific business opportunities would there be? What threats?
- 4 What would be the main challenges if Yoyili was to grow? How might they be addressed?

### *Part 2: Yoyili Enterprises in 2010*

By the summer of 2010, Yoyili was providing a livelihood for about 40 people. The single most important vehicle for this growth was its production of the Gyapa range of highly efficient charcoal-burning stoves designed and promoted by Enterprise Works – a project of the US NGO Volunteers in Technical Assistance (VITA). Labaran had been trained in how to produce them and keep records on sales. Unlike some metalworkers from other regions of Ghana who also accepted the training, Labaran was convinced the Gyapa stoves had potential. He put effort into training his workers and he persuaded them to produce them. Through a series of seminars VITA supported him in managing the development of the business. Yoyili become one of a small number of approved manufacturers. All this took place over a period of five years.



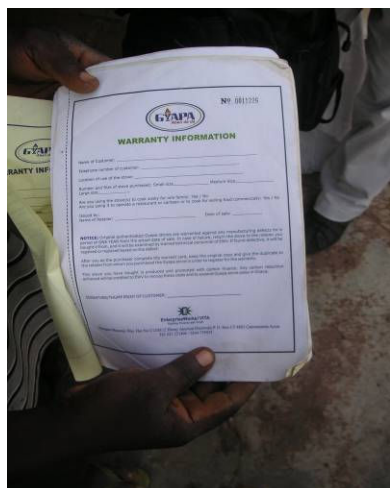
*The Gyapa sign*



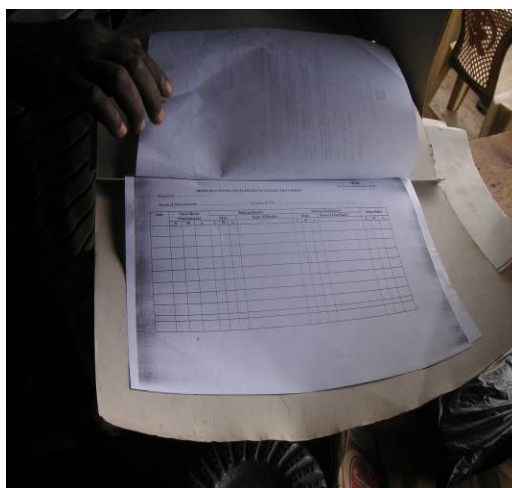
*Labaran and a Gyapa stove*

During this period, VITA began advertising the stove nationally with a lively jingle on the radio and television; and it was able to sell carbon credits on the back of a well-documented audit trail – this was the reason for the training in record keeping and provision of a one-year guarantee for each stove. If the price of carbon credits rises, Yoyili will share some of the additional revenue generated.

The promotions worked, Gyapa became a familiar brand, and demand rose continually. In fact, Labaran believed he could expand sales further – for example, by selling into other regions – but he is operating at full capacity.



*Warranty*



*Sales ledger*

Yoyili was selling about 1500 stoves each week, with the medium-sized ones being the most popular. But this was still less than half of Yoyili's overall business. During this period, Ghana's economy had been expanding steadily and the main road was now a business and shopping thoroughfare. So how did the business run? Here is an overview.



*A good location for passing trade*

### Product range and marketing

- ◆ High-volume items – Gyapa stoves, chicken feeders – sold direct to customers and also in bulk to traders who take them off to sell 50 or more miles away.
- ◆ A wide range of low-volume items, as illustrated in the pictures – large ovens and stoves for catering businesses; domestic and agricultural equipment. Direct sales to local businesses and shoppers; also some sales to traders.
- ◆ Bespoke items to order.





*Some of the numerous products*

### **Financial management and sample financial analysis**

The business is run on a cash basis and it seems not to have a bank account, though Labaran surely does have one. Nevertheless, various local taxes are paid regularly at intervals through the year. For a high-volume stove the breakdown was as follows:

Bought-in parts and materials, mainly the ceramic element	GH¢2
Labour	GH¢3
Wholesale price	GH¢8
Factory retail	GH¢10
Retail elsewhere	GH¢12

With 10 of his people working on these he could produce 1800 per month and could expect about GH¢1000 per month in net profit.

This was not the only profitable line for which demand was high. The number of poultry farmers was growing, and once the farmers had invested in the purchase of chicks, they needed devices to feed them. But the farmers soon discovered that the cheap plastic feeders were unreliable, and could not be repaired (this was equally the case with plastic watering cans, another line waiting to be properly exploited). With five people producing feeders, Labaran could produce 500 a month and sell them for GH¢7 – netting another GH¢500 profit.

### **Technology and work organisation**

There were no managers as such. The work was undertaken using small group batch production – several people work on a batch together – and simple tools, some made by themselves (see pictures). It was coordinated through a network of implicit and explicit contracts and established practices.



*Work in progress*

### **Labaran's leadership roles**

- ◆ Sourcing and purchasing of scrap metal and ceramic elements
- ◆ Pricing and arranging/agreeing major sales
- ◆ Quality control and training
- ◆ Cash management
- ◆ Agreeing what batches are produced and the internal labour payment
- ◆ Being the leader of one of the small production groups
- ◆ Thinking ahead – for example, Labaran's younger brother is studying marketing at the Polytechnic in Accra.

### **The culture of the enterprise**

A number of Labaran's family work for the business. In a fairly low-key Ghanaian way, a shared ethnic identity (as Muslim northerners) probably also provides some social 'glue'. The business upholds some shared social concerns – they try to take on youngsters, for example, and provide training (although, because it takes six months to become productive, they cannot do as much of this as they would like). They have provided work to a mute person whose father and brother had died, and who was a not very close relative of another member of the business. All those working in the



enterprise contribute GH¢1 per week to a welfare club (social insurance); the revenue from the sale of their own offcut scrap is also put into the welfare club.

Labaran has been concerned for some time that the business will have to adopt a corporate form. Among the reasons for this are the continuing claim which some members of the extended family think they have on the business – even though they have not been involved for many years. Some years ago he invited 15 of the more senior figures to join him in discussing how this might be done and the investments they might make to achieve it. These discussions did not lead anywhere.

### **Discussion questions**

- 1 From the information given so far (including in the pictures), how do you appraise Labaran's achievement?
- 2 What are the main business challenges and opportunities that Yoyili faces?
- 3 What are the main challenges that Labaran himself faces?

### ***Part 3: Business challenges and possibilities***

The success of the business (and others) has made it much harder to obtain the scrap metal they need, and they have to pay more for it. Eventually, he may have to buy scrap from other countries, or even buy cut pieces from China. But this is as nothing compared with the capacity constraints the business faces: the workforce cannot work in full sun – they need shade, and it is all now in use. Moreover, every bit of available space is used to store finished and part-finished goods. On top of this, the firm's use of the site is being challenged by the commercial developers who have put up a large office building on the land immediately behind the Yoyili plot. Not long ago, this challenge took a very direct form: the owners of the new building, with the support of the police, tried to evict them from the site. Labaran was not intimidated: he called to the workforce to pick up their heaviest tools and fight for their livelihoods. The result was a brief stand-off, from which the police and commercial developers backed down. Nevertheless, Labaran warned his people that if the police returned with the army, then they should run, not stand and fight. Happily, it did not come to that.

In fact, finding a better site was a long-running issue. This event meant it was now urgent. Years before, Labaran had been to talk to the National Board for Small-Scale Industries (NBSSI) to seek assistance in moving to another site. They had suggested he should talk to the Tema Development Corporation. He did – but they said he should be talking to the Planning Department of the Tema Metropolitan Authority (TMA). They lost his letter, so he had to visit twice – and all they did was refer him back to the NBSSI. At one point he had formed an Association of Metalworkers with other independent artisans in the hope that this would make it easier to get permission for a site. But when this had still not succeeded after four or five years, the Association collapsed. In the course of these efforts, Labaran had visited the Ministry of Local Government and the HQ of the NBSSI in Accra; and presented a letter from the Association to the Deputy Chief Executive of the TMA, but this did not even receive a response.

Basically, the character of the site had been transformed: the local authority was keen to see the property along the road upgraded (to increase tax revenue), and was insisting that traditional structures were replaced with modern ones. The fact was, TMA was not going to give a permit for a workshop on a valuable commercial site. Moreover, Yoyili's legal claim to the site was not that strong, even if the business had been there for generations.

Essentially, Labaran seemed to face a choice between three options:

- 1 Try to stay on the site, and redevelop it – almost certainly unrealistic as the space was insufficient for the existing business, let alone an expanding one.

- 2 Strike a deal to leave the site and move elsewhere to create a new facility with more shade and space – but there was no obvious site nearby, and it would mean losing all the valuable passing trade.
- 3 Try to stay on the site but redevelop it as a small depot and retail outlet, for which it was well suited, and *also* develop a production unit capable of larger volumes on a suitable, larger and cheaper site elsewhere.

Finally, whichever option he and the family chose, it was clear that they would need to take out loans, and to adopt a corporate form. Labaran's previous experience with the NBSSI meant he was not looking forward to engaging with the men in suits again.

#### **Discussion questions**

- 1 What appear to be the advantages and disadvantages of options (2) and (3)? What challenges might be involved in carrying them through?
- 2 What questions do you think Labaran needs to consider to help to him decide between options (2) and (3)?
- 3 Who might sensibly share ownership in the business, and in what ways? What legal forms might Labaran consider as means to incorporate Yoyili Enterprises?